

Message Text

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ACTION EB-11

INFO OCT-01 NEA-10 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00

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TAGS: ENRG, EFIN, ETRD, KU

SUBJ: TRADE AND INVESTMENT OPPORTUNITIES ARISING FROM ENERGY

SITUATION

REF: A) STATE 40537; B) KUWAIT A-11, 2/12/74

SUMMARY: BASED ON CURRENT
PROJECTIONS KUWAIT'S ANNUAL INCOME
OVER THE NEXT FEW YEARS SHOULD BE \$7-11 BILLION. THIS WILL
ENABLE GOVERNMENT AND PRIVATE SECTOR TO PURSUE SEVERAL BILLION
DOLLARS WORTH OF INDUSTRIAL, TRANSPORTS AND PUBLIC WORKS AND MILITARY
PROGRAMS. IN ADDITION KUWAITI FINANCIAL ASSISTANCE AND INVEST-
MENT ELSEWHERE IN ARAB WORLD, NOTABLY EGYPT AND THE SUDAN WILL
MAKE POSSIBLE SIMILAR PROGRAMS OUTSIDE THE COUNTRY. EVEN LARGER
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AMOUNTS OF MONEY WILL BE INVESTED ABROAD. IN ALL CASES THERE IS EVERY REASON TO EXPECT US FIRMS TO BE ABLE TO BENEFIT FROM KUWAITI ECONOMIC AND FINANCIAL ACTIVITY, BUT COMPETITION WILL BE KEEN, PARTICULARLY IN SELLING MAJOR EXPORT ITEMS HERE. FURTHERMORE, NEW IDEAS ARE NEEDED TO PRESERVE THE VALUE OF KUWAITI INVESTMENTS, NOT ONLY TO ATTRACT THEM TO THE US BUT ALSO TO HELP ENCOURAGE ADDITIONAL OIL PRODUCTION HERE. END SUMMARY

1. CURRENT OIL PRICE SITUATION IS SO BASIC TO PRESENT KUWAITI ECONOMIC ENVIRONMENT THAT IT REFLECTED IN MUCH OF OUR REPORTING OVER PAST FEW MONTHS. WE SUGGEST DEPARTMENT REFER TO REF B FOR MORE DETAILED STATEMENT OF KUWAITI INCOME AND EXPENDITURE TRENDS.

2. BASED ON CURRENT PROJECTIONS, GOK'S ANNUAL INCOME OVER NEXT FEW YEARS EXPECTED TO BE \$7-11 BILLION. THIS WILL ENABLE GOVERNMENT AND PRIVATE SECTOR TO PURSUE VARIETY OF PROGRAMS. MOST IMPORTANT WILL BE LARGE VENTURES IN PETROLEUM BASED INDUSTRIES SUCH AS REFINING, LPG PRODUCTION AND PETROCHEMICALS. THERE ARE ALSO PLANS FOR STEELMILL AND PERHAPS ALUMINIUM PLANT AS WELL. IN ADDITION SEVERAL SMALLER INDUSTRIAL PROJECTS BEING PLANNED. OUTSIDE INDUSTRIAL AREA SEVERAL BILLION DOLLARS ARE EXPECTED TO BE SPENT ON TRANSPORT (SHIPPING, AIRLINES), PUBLIC WORKS AND MILITARY PROGRAMS.

3. KUWAITI FOREIGN AID PROGRAMS AS WELL AS INCREASING INTEREST AMONG PRIVATE SECTOR TO EXPAND AND INVEST OUTSIDE KUWAIT IN ARAB WORLD, PARTICULARLY IN EGYPT AND THE SUDAN, WILL ALLOW SIMILAR PROJECTS TO BE UNDERTAKEN OUTSIDE KUWAIT.

4. REGARDING INDUSTRIAL AND RELATED ACTIVITIES THERE EVERY REASON TO EXPECT THAT US FIRMS WELL PLACED TO BENEFIT FROM BILLIONS WHICH WILL BE SPENT. US AIRCRAFT, CONSULTING AND PETROLEUM-INDUSTRY-RELATED FIRMS HAVE EXCELLENT REPUTATION. BUT COMPETITION FROM EUROPEAN AND JAPANESE COMPANIES WILL BE INTENSE. OFTEN NON-US COMPANIES SEEM TO BE MORE AGGRESSIVE AND IMAGINATIVE IN PURSUING OPPORTUNITIES HERE. KUWAITIS LOOKING FOR MANAGEMENT AND MARKETING SERVICES AS WELL AS TRAINING. COMPANIES THAT CAN COME FORWARD WITH IMAGINATIVE PROPOSALS PARTICULARLY TURN-KEY OR PACKAGE PLANS CAN BE EXPECTED GET LIMITED OFFICIAL USE

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INSIDE TRACK. THIS IS WHAT JAPANESE, IN PARTICULAR, ARE DOING AND THEY ARE HIGHLY REGARDED AS A RESULT.

5. PERHAPS EVEN MORE SIGNIFICANT THAN EXPORT OPPORTUNITIES LOCAL PROJECTS SIGNIFY, IS POTENTIAL KUWAITI INVESTMENT IN US. NOTWITHSTANDING AMBITIOUS INDUSTRIALIZATION AND OTHER PROGRAMS, KUWAITIS CANNOT SPEND ANYWHERE NEAR THEIR TOTAL INCOME. IN

FY 74/75 GOK HAS ALLOCATED \$6 BILLION FOR INVESTMENT AND AID,
MUCH OF IT PRESUMABLY IN US.

6. FOR KUWAITIS MOST IMPORTANT QUESTION IS HOW AND WHERE TO
INVEST SO THAT INVESTMENT HAS REASONABLE CHANCE TO MAINTAIN
VALUE. AS DEPARTMENT AWARE GOK AND LOCAL INVESTORS TRAUMATIZED
BY VARIOUS DEVALUATIONS OVER PAST FEW YEARS AND THIS IN TURN
HAS PLAYED MAJOR ROLE IN DECISION TO LIMIT OIL PRODUCTION.
SINCE US HAS BEST COMBINATION OF SIZE, OPENNESS AND ECONOMIC
DIVERSITY IT SHOULD BE PARTICULARLY ATTRACTIVE TO LOCAL
INVESTORS. BUT MANY KUWAITIS UNFAMILIAR WITH US WHILE OTHERS
FEAR THAT LARGE SCALE INVESTMENTS NOT REALLY DESIRED. THEREFORE,
WE BELIEVE, ASSUMING USG DOES WANT ENCOURAGE INVESTMENTS FROM
HERE, THAT IT NECESSARY DEVELOP PROGRAM WHEREBY APPROPRIATE
INVESTMENT OPPORTUNITIES WILL BE IDENTIFIED, AND KUWAITI
(AND OTHER FOREIGN) INVESTORS CAN BE EDUCATED ABOUT INVESTING
IN US. TIME MAY ALSO BE AT HAND WHERE USG WILL HAVE TO BEGIN
TO CONSIDER SOME FORM OF GUARANTEE OR VALUE MAINTENANCE
SCHEME IF IT HOPES ATTRACT INVESTMENTS AND ENCOURAGE OIL
PRODUCTION.
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